



Trade Facilitation and Competitiveness Project

Under the Development Grant Agreement
IDA Grant No. H165-KH
between the Government of the Kingdom of Cambodia
and the International Development Association

Management letter

For the year ended 31 December 2009

Ernst & Young

 **ERNST & YOUNG**

PRIVATE & CONFIDENTIAL

19 May 2010

H.E. Kem Sithan
Project Director
Lot 19-61, MOC Road (113B Road)
Sangkat Toeuk Thla, Khan Sen Sok
Phnom Penh, Kingdom of Cambodia

Gentlemen:

We have completed our audit of the financial statements of the Trade Facilitation and Competitiveness Project ("the Project") implemented by the Ministry of Commerce as at and for the year ended 31 December 2009. During the course of the engagement, we considered the Project's accounting policies, procedures, and internal controls relevant to our audit and, in accordance with our normal practice and specifically as a result of our engagement, we wish to highlight certain matters that came to our attention.

Our review of the accounting procedures and internal controls was conducted to assist us in expressing an opinion on the financial statements of the Program taken as a whole. This work was not primarily directed towards the discovery of weaknesses, detection of fraud, or other irregularities, other than those which would influence us in forming our opinion, and should not therefore be relied upon to show that no other weaknesses, detection of fraud, or other irregularities exist. Accordingly, the comments that follow refer only to those matters which have come to our attention during the course of our normal work and do not attempt to indicate all possible improvements which a special review might develop.

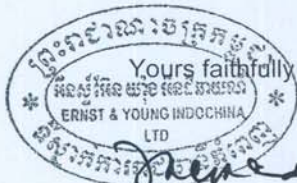
We enclose a summary of the points we noted during our audit, together with our recommendations, thereon, as follows:

1. Fixed asset register not properly recorded and monitored
2. No fixed asset count
3. No surprise cash count documentation
4. Late posting of journal entries in the system
5. Error in posting fund receipt

We have also summarized the status of the comments noted in previous year's audit.

We would highly appreciate if you could keep us informed of future developments/changes in these areas and in the Project's accounting procedures and internal control system. In the meantime, please do not hesitate to contact us if you require further explanation or information.

We would also like to thank you and your staff for the co-operation you have extended to us during our audit. We look forward working with you again and in providing you with the required assistance, if any, in the future.



Maria Cristina M. Calimbas
Maria Cristina M. Calimbas
Partner

Trade Facilitation and Competitiveness Project

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MANAGEMENT LETTER

for the year ended 31 December 2009

1. FIXED ASSET REGISTER NOT PROPERLY RECORDED AND MONITORED

Observation

During our inspection of fixed asset register of Automated System for Customs Data ("ASYCUDA"), we noted that the listing does not have corresponding purchase price.

In addition, we noted several items without proper identification number code and some details like total count and location of items not updated.

Implication

Above observations are considered breach of the financial management manual for externally financed projects with the following basis:

- Appendix 1 - Asset and Inventory Register of the financial management manual states that details of assets such as description of the asset, quantity, unit price, amount, location, condition, etc. should be included in the fixed assets register.
- Section 15.2 of the financial management manual states that each capitalized asset should be assigned an identification number code (eg. inventory stickers) in order to establish ownership and accountability.

Recommendation

We recommend that the Project improve its fixed asset register of ASYCUDA to include the purchase price of assets. We also suggest that the Project strictly assign an identification number code for each ASYCUDA for proper and easy identification and for monitoring and security purposes.

Project management's response

The listing is provided by UNCTAD, and the absence of purchase price is probably the UNCTAD policy. UNCTAD was responsible for the procurement and management of all assets.

All equipment are coded with ID. However, due to lack of sufficient equipment i.e. PCs, sometimes the National Project Team (NPT) of the General Department of Customs and Excise has to move/transfer some of the PCs from one ASYCUDA operation place to another as required by operation and management of the system.

This kind of audit was conducted during UNCTAD era, but no such issues have been raised at that time.

However, the project management will improve the asset register and management accordingly.

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MANAGEMENT LETTER (continued)
for the year ended 31 December 2009

2. NO FIXED ASSET COUNT

Observation

During our audit of fixed assets, we noted that the Project did not perform physical count of ASYCUDA.

Implication

This is a non-compliance issue as the financial management manual (Section 15.2) states that physical count must be conducted periodically (at least once a year) in order to determine the actual existence of the asset and its condition.

Recommendation

We recommend that the Project conduct periodic physical count of its ASYCUDA.

Project management's response

On 6 March 2009, the TFCP accountant received the list of fixed assets for ASYCUDA as at 31 December 2008 and then made the physical count of fixed assets at Sihanouk Province on 27 March 2009 and at Phnom Penh on 3 April 2009 and found that the assets register were recorded properly.

UNCTAD finished the contract on 31 December 2009; unfortunately until now (May 2010) TFCP has not received the list of fixed assets as at 31 December 2009. This is the reason that TFCP had not made the physical count of ASYCUDA fixed assets before the external audit fieldwork.

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3. NO SURPRISE CASH COUNT DOCUMENTATION

Observation

During our audit, we did not note any documentation regarding surprise cash count.

Implication

This is a non-compliance issue as the financial management manual (Section 13.2) enumerates key internal controls on petty cash and that includes performance by a finance official of irregular spot cash counts of the petty cash float.

Recommendation

We recommend that the Project periodically conduct surprise cash counts.

Project management's response

The project always conducts cash counts on month end basis and we will follow the recommendation from auditors to conduct surprise cash counts.

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MANAGEMENT LETTER (continued)
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4. LATE POSTING OF JOURNAL ENTRIES IN THE SYSTEM

Observation

During our audit fieldwork, we noted that the journal entries for the three months covering January to March 2010 were not yet encoded in the system. The Project keeps track of its everyday transactions through an excel worksheet.

Implication

Late posting of journal entries into the system may affect timely preparation of financial reports. In addition, this may be a threat in data security.

Recommendation

We suggest that the Project implement real-time posting of journal entries.

Project management's response

Ministry of Commerce shifted to the new building at the end of the year 2009, so the Project was busy in preparing the new office with the priority tasks i.e. new telephone, internet, network, design accounting software with additional new accounting codes etc. These were the reasons of late posting for January to March 2010 journal entries. Now the Project implements real-time posting of journal entries.

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5. ERROR IN POSTING FUND RECEIPT

Observation

During our audit of funds received from World Bank, we noted that several receipts were recorded using credit advice instead of bank receipt voucher. This error affected the sequence of vouchers.

Implication

This error will have an impact on the sequential numbering of vouchers.

Recommendation

We recommend that the Project should be cautious in the use and proper sequence vouchers.

Project management's response

It was an unintentional mistake of project accountant who is in charge of posting the journal entries. The mistake was already corrected.

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MANAGEMENT LETTER (continued)
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Status of previous year's comments by another auditor

1. CERTAIN NON-EXPENDABLE ITEMS WERE NOT PROPERLY TAGGED

Observation

During our inspection and independent count of non-expendable items, we noted three computer units located at the Export Market Access Fund's (EMAF) office that did not have the required tags.

Status

The Project already tagged the three computer units located at the EMAF management office.